

# **Equalizing Tax Reform**

*How the AMERICAN PEOPLE'S DIVIDEND protects the surplus, provides stronger economic stimulus and offers more tax relief to the majority of Americans than the Bush plan, at half the cost*



**A Report by the Congressional Progressive Caucus**



## The AMERICAN PEOPLE'S DIVIDEND

*Across-the-board, fiscally sound tax relief by the Congressional Progressive Caucus*

The American People's Dividend plan for tax relief, advanced by the Congressional Progressive Caucus, is the simplest, fairest and best alternative to the Administration's tax giveaway to the few and the powerful.

The American People's Dividend would give about \$300 to every American man, woman and child every year for 10 years. It is better for the vast majority of taxpayers than the Administration's plan. For instance, under the Progressive Caucus' American People's Dividend plan, a single, low income wage earner with no children would receive \$300 in tax relief, while under the Administration's plan, the same wage earner would receive only about \$60. A middle income family with two wage earners would receive \$1,200 a year under the American People's Dividend, while receiving only \$380 under the Administration's plan.

It is simple and straightforward. With the American People's Dividend, a married couple with three children will receive \$1500 -- \$300 for each member of the family. This plan will not require pages of new tax forms. This plan is easy to administer.

It is fair. Unlike the Bush proposal, which reserves over 40% of the tax cuts for the wealthiest 1% of the population, the American People's Dividend proposal gives the wealthiest 1% about 1% of the tax relief. This makes the overwhelming proportion of tax relief available for the bulk of the population. The American People's Dividend gives the same benefit to everybody, because we are all equal shareholders in our national economy.

The American People's Dividend is also fiscally responsible. It will be payable every year the federal budget is in surplus, without making permanent changes to the tax code. The Progressive Caucus believes money left in the surplus beyond the dividend should be spent on national priorities such as a prescription drug program and education.

Finally, the American People's Dividend is better for the economy. Since the tax relief goes to people who will spend the money to meet their basic needs, it will add to aggregate economic demand and encourage manufacturing production, service provision and job growth.

The American People's Dividend was developed to meet the needs and serve the interests of all Americans equally and fairly.

## Distributional Analysis 1:

# **MOST AMERICANS RECEIVE VERY LITTLE UNDER THE BUSH TAX PLAN**

- 80% of Americans get less than \$1,000 a year in the first 3 years
- 95% of Americans get less than \$1,400 a year in the first three years
- The richest 1% get more than \$63,000 in just the first three years
- Families making between \$16,000 and \$29,000 get less than \$470 total in the first 3 years
- Over the course of three years, the average family in the top 1% making \$1,164,000 receives 172 times the amount in tax breaks than the average family making \$22,400 receives in the same time period.
- The richest 1% of the population with an average income over \$1 million per year get more than \$63,000 – a tax cut 88 times larger than the one given to the bottom 80% of America
- Individuals the top 1% actually receive 172 times the tax break than the average family making \$22,400
- Those making \$16,000 or less get less than \$80 total in the first 3 years

Income Group	Income Range	Average Income	Average Bush tax cut - 2002	Average Bush tax cut - 2003	Average Bush tax cut - 2004
Lowest 20%	Less than \$16,000	\$10,020	-\$15	-\$25	-\$37
Second 20%	\$16,000-29,000	22,400	-71	-121	-174
Middle 20%	\$29,000-48,000	37,500	-170	-286	-409
Fourth 20%	\$48,000-79,000	61,400	-316	-513	-761
Next 15%	\$79,000-159,000	106,000	-588	-884	-1,352
Next 4%	\$159,000-397,000	226,000	-1,043	-1,390	-2,102
Top 1%	\$397,000 or more	1,164,000	-13,469	-18,859	-31,201

Compiled by Citizens for Tax Justice for the Congressional Progressive Caucus

## Distributinal 2:

# THE AMERICAN PEOPLE'S DIVIDEND OFFERS MORE TO MOST PEOPLE THAN THE BUSH PLAN

The AMERICAN PEOPLE'S DIVIDEND provides more in tax relief to most Americans than does the Bush plan, at half the cost to the government

Families making \$16,000 or less get 1692% more in tax relief under the AMERICAN PEOPLE'S DIVIDEND than the Bush plan

In just three years, the average individual in the middle 20% will get \$1,714 in tax relief – almost double the amount they get under the Bush plan

### Why would the American People's Dividend Help Working People?



- As a whole, the bottom 80% of Americans comprising the middle class get more than twice as much under the AMERICAN PEOPLE'S DIVIDEND than under the Bush plan
- Working families making \$16,000 or less get almost 18 times more under the AMERICAN PEOPLE'S DIVIDEND than under the Bush plan

Income Group	Income Range	How much <u>more</u> received under the Progressive Caucus Plan	How much <u>more</u> received under the Bush Plan	Percent bigger (smaller)
Lowest 20%	Less than \$16,000	\$1,286		1692%
Second 20%	\$16,000-29,000	\$1,163		317%
Middle 20%	\$29,000-48,000	\$848		98%
Fourth 20%	\$48,000-79,000	\$530		33%
Next 15%	\$79,000-159,000		\$407	(14%)
Next 4%	\$159,000-397,000		\$2,014	(45%)
Top 1%	\$397,000 or more		\$60,935	(96%)

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### Distributional 3:

## **THE AMERICAN PEOPLE'S DIVIDEND HELPS WORKING, MIDDLE-INCOME FAMILIES WHILE THE BUSH PLAN HELPS THE WEALTHY**

Tax status	Source	Income \$	Current tax \$	Bush plan tax cut, 1 <sup>st</sup> year \$	Progressive Caucus AMERICAN PEOPLE'S DIVIDEND tax cut \$	Progressive Caucus compared to Bush \$
<b>Single, no children</b>	<b>Wpost</b>	<b>20,000</b>	<b>1883</b>	<b>60</b>	<b>300</b>	<b>+ 240</b>
<b>Single, no children</b>	<b>Wpost</b>	<b>60,000</b>	<b>8272</b>	<b>191</b>	<b>300</b>	<b>+ 109</b>
<b>Married, two incomes, two children</b>	<b>Wpost</b>	<b>60,000</b>	<b>3050</b>	<b>380</b>	<b>1200</b>	<b>+ 820</b>
<b>Married, two earners, no children</b>	<b>USA Today</b>	<b>117,000</b>	<b>18,708</b>	<b>540</b>	<b>600</b>	<b>+ 60</b>
Single, no children	USA Today	140,000	28,463	818	300	- 518
Married, two incomes, one child	Wpost	200,000	38,565	1408	900	- 508
Married, two earners, no children	USA Today	950,000 -- One spouse earns 800,000, the other 150,000 in capital gains	301,260	8736	600	- 8136



## **Economic Stimulus:**

# **THE AMERICAN PEOPLE'S DIVIDEND PROVIDES A STRONGER SHOT IN THE ARM TO THE ECONOMY THAN THE BUSH PLAN**

Compiled with assistance from the Economic Policy Institute (<http://www.epinet.org>)

## **Overview**

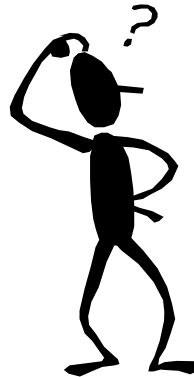
Recent economic news suggests that the risk of recession has become acute. Economic growth, which registered a strong 5.6% in the second quarter of 2000, slowed to 1.4% in the final quarter and is currently close to zero. At the same time, unemployment has now begun to rise. Manufacturing has contracted for the last four months, and layoffs are rising. In fact, employment in this sector has shrunk by 600,000 jobs since its 1998 peak. Layoffs extend to the temporary help industry (whose workers provide a buffer for permanent employees), which lost 500,000 jobs in the last four months. This is a huge drop in an industry that employs only four million workers. Furthermore, new data suggest that the service sector now hovers on the brink of recession. One widely followed index shows a decline in non-manufacturing activity to a record low of 50.1 in January.

## **No stimulus in the Bush tax plan**

President Bush argues that, by making the tax savings in the first year of his tax plan retroactive, his proposed tax cuts will stimulate the economy. Unfortunately, the first year's tax savings in the Bush plan are too small to have much of an effect on the economy, arrive too late to avert a recession, and are skewed toward the wealthy, who are more likely to save the extra money than spend it. As a stimulus, the president's tax plan is a weak response to an increasingly serious problem.

Even if the Bush tax plan were enacted this year, most of the effects would not be felt until April 15, 2002. In addition, the plan is backloaded. First-year tax savings amount to \$20-30 billion. Even if households spent all of their tax cut, consumer spending would increase by less than 0.5% – not enough to be much of a stimulus. Finally, Citizens for Tax Justice estimates that the richest 1% of households receive 43% of the tax savings in the Bush plan (much more than the 21% share of income and payroll taxes this group actually pays), and the top fifth gets 71% of the savings.

## **How can the Bush plan provide economic stimulus if it is backloaded and gives most benefits to the rich???**



Even if the Bush plan was enacted today, most effects would not be felt until well into 2002

First-year savings under the Bush plan would be \$20-30 billion – only less than .5% of consumer spending

## **The AMERICAN PEOPLE'S DIVIDEND provides immediate economic stimulus**



A \$300 check to everyone would transfer roughly \$90 billion into the economy immediately

The American People's Dividend would raise consumer spending by up to 1.3%

## **Major immediate stimulus in the AMERICAN PEOPLE'S DIVIDEND**

Congress should enact the a proposal such as that being pushed by the Congressional Progressive Caucus. Sending a check for \$300 to every man, woman, and child would provide a real stimulus to the economy. The dividend could be issued quickly, and it would put money in the hands of people who would spend it.

A tax-free \$300 check to every permanent resident would transfer roughly \$90 billion from the government to the private sector – enough to raise consumption spending by 1.3%. These are big enough numbers to matter in a \$10 trillion economy. By comparison, research on the wealth effect shows that the run-up in the stock market between 1997 and 1999 led to a significant increase in consumption. A mid-point estimate of this increase was 1.7%.

## Question:

# Why would Bush push a tax plan that is so skewed to the wealthiest 1%?

As reported by the Wall Street Journal, Bush treated a group of the GOP's most generous donors to a private lunch to discuss his tax proposal one day before he sent it to Congress. According to the Journal's report, "about 20 industry executives gathered who gathered at the White House had contributed more than \$14 million to the Republican Party in the last campaign cycle." The luncheon included CEOs from companies such as:

## **CEOs/Executives Represented at Private White House Lunch on Taxes One Day Before Bush Introduces Tax Plan**

**General Electric Co., who donated \$1.1 million to Republican causes**

**MBNA Corp. who donated more than \$3.1 million to Republican causes and an additional \$100,000 to the Bush inaugural fund**

**Enron Corporation, who donated \$1.8 million to Republicans and an additional \$300,000 to President Bush's inaugural**

**American International Group who donated \$801,951 to Republicans**

**Limited, Inc., who donated \$983,769 to Republicans**

**PaineWebber, who donated \$966,321 to the GOP last cycle**

**Charles Schwab, who donated \$580,500 to the GOP last cycle**

**Aurora Capital Group who donated \$371,505 to the GOP last cycle**

Additionally, the Wall Street Journal also reported on how just the estate tax provisions under Bush's tax proposal will be a boon to Members of his cabinet. As the Journal reports, "Bush, Vice President Cheney and up to 14 cabinet members own estates that could benefit from the proposal, according to their range of assets reported on financial disclosure forms."

## **Wall Street Journal Chart**

	POSITION	ASSETS
<b>George W. Bush</b>	President	\$11 - \$21.6 million
<b>Dick Cheney</b>	Vice President	\$19.3 - \$81.7 million
<b>John Ashcroft</b>	Attorney General	\$1.1 - \$3.3 million
<b>Elaine Chao</b>	Labor	\$2.3 - \$5.4 million
<b>Mitchell Daniels</b>	Budget	\$18 - \$75.3 million
<b>Donald Evans</b>	Commerce	\$11.4 - \$45.1 million
<b>Mel Martinez</b>	Housing, Urban Development	\$1.6 - \$4 million
<b>Paul O'Neill</b>	Treasury	\$62.8 - \$103.3 million
<b>Roderick Paige</b>	Education	\$1.1 - \$2.9 million
<b>Colin Powell</b>	State	\$19.5 - \$68.9 million
<b>Anthony Principi</b>	Veterans Affairs	\$1.6 - \$3.6 million
<b>Donald Rumsfeld</b>	Defense	\$61 - \$242.5 million
<b>Tommy Thompson</b>	Health, Human Services	\$1.3 - \$3.4 million
<b>Ann Veneman</b>	Agriculture	\$680,000 - \$2 million
<b>Christine Whitman</b>	Environment	\$6.4 - \$20.2 million
<b>Robert Zoellick</b>	Trade	\$3.3 - \$13 million